

LOWELL AREA SCHOOLS
Kent and Ionia Counties, Michigan

Comprehensive Annual Financial Report

For the year ended June 30, 2007

LOWELL AREA SCHOOLS
Table of Contents

For the year ended June 30, 2007

Financial Section

<i>Independent Auditor's Report</i>	<i>1</i>
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<i>Management's Discussion and Analysis</i>	<i>3</i>
---	----------

<i>Basic Financial Statements</i>	<i>11</i>
---	-----------

District-wide Financial Statements:

Statement of Net Assets.....	12
------------------------------	----

Statement of Activities	13
-------------------------------	----

Fund Financial Statements:

Governmental Funds:

Balance Sheet	14
---------------------	----

Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	15
--	----

Statement of Revenues, Expenditures and Changes in Fund Balances	16
--	----

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
--	----

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual – General Fund	18
--	----

Fiduciary Funds:

Statement of Fiduciary Net Assets.....	19
--	----

Statement of Changes in Fiduciary Net Assets	20
--	----

Notes to Basic Financial Statements	21
---	----

Supplemental Information

Combining and Individual Fund Statements and Schedules:

General Fund	39
--------------------	----

Comparative Balance Sheet	40
---------------------------------	----

Comparative Schedule of Revenues	41
--	----

Comparative Schedule of Expenditures	43
--	----

LOWELL AREA SCHOOLS
Table of Contents (Continued)

For the year ended June 30, 2007

Nonmajor Governmental Funds	49
Combining Balance Sheet	50
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	52
Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual:	
Food Service Special Revenue Fund	54
Athletics Special Revenue Fund	55
Special Revenue Funds	56
Food Service Special Revenue Fund:	
Comparative Balance Sheet	57
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances	58
Athletics Special Revenue Fund:	
Comparative Balance Sheet	59
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances	60
Debt Service Funds	61
Combining Balance Sheet	62
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	64
Capital Projects Fund	66
2004 Construction Capital Projects Fund:	
Comparative Balance Sheet	67
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances	68
Agency Fund	69
Student Activities Agency Fund:	
Statement of Changes in Assets and Liabilities	70
Other Information:	
Summary of 2006 Taxes Levied and Collected	72

Federal Financial Assistance Programs Supplemental Information Issued Under Separate Cover

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

November 12, 2007

The Board of Education
Lowell Area Schools

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Lowell Area Schools (the "District") as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's elected officials and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the major fund and the aggregate remaining fund information of Lowell Area Schools as of June 30, 2007, and the respective changes in financial position and budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2007 on our consideration of Lowell Area Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Lowell Area Schools. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hungerford, Alden, Nichols & Horton, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS



As management of the Lowell Area Schools ("the District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which immediately follow this section.

Overview of the Financial Statements

This annual report consists of three parts: Management's Discussion and Analysis (this section), the Basic Financial Statements, and Supplemental Information. The Basic Financial Statements include two kinds of statements that present different views of the District:

- The first two statements, the Statement of Net Assets and the Statement of Activities, are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the district, reporting the District's operations in more detail than the district-wide statements.
 - ♦ *Governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
 - ♦ *Fiduciary funds statements* provide information about the financial relationships in which the district acts solely as a trustee or agent for the benefit of others.

The Basic Financial Statements also include Notes to Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data. Other Supplemental Information follows and includes combining and individual fund statements.

District-wide Statements

The District-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets, and how they have changed. Net assets - the difference between the District's assets and liabilities - is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, one should consider additional non-financial factors such as changes in the District's property tax-base and the condition of school buildings and other facilities.



In the district-wide financial statements, the District's activities are presented as follows:

- *Governmental activities:* The District's basic services are included here, such as regular and special education, instructional support, transportation, administration, community services, food service and athletics. State aid and property taxes finance most of these activities.

Condensed District-Wide Financial Information

The Statement of Net Assets provides financial information on the District as a whole.

	2007	2006
Assets		
Current assets	\$ 11,638,034	\$ 9,552,848
Net capital assets	38,805,701	39,812,949
Total Assets	50,443,735	49,365,797
Liabilities		
Current liabilities	14,126,006	13,263,571
Long-term liabilities	40,048,143	44,738,222
Total Liabilities	54,174,149	58,001,793
Net Assets		
Invested in capital assets, net of related debt	(6,853,216)	(10,147,089)
Restricted	678,945	618,045
Unrestricted	2,443,857	893,048
Total Net Assets	\$ (3,730,414)	\$ (8,635,996)



The Statement of Activities presents changes in net assets for operating results:

	<u>2007</u>	<u>2006</u>
Program Revenues		
Charges for services	\$ 1,431,450	\$ 1,506,319
Operating grants	4,603,007	4,697,904
General Revenues		
Property taxes	7,893,642	7,226,590
State school aid, unrestricted	24,859,156	24,367,127
Interest and investment earnings	270,165	164,729
Gain (loss) on sale of capital assets	(19,601)	2,338
Other	889,320	669,340
Total Revenues	<u>39,927,139</u>	<u>38,634,347</u>
Expenses		
Instruction	19,372,506	19,121,753
Supporting services	12,536,646	12,466,483
Community services	435,750	467,593
Food service	1,243,022	1,204,051
Athletics	697,987	657,001
Other	23,264	23,264
Interest on long-term debt	712,382	1,895,521
Total Expenses	<u>35,021,557</u>	<u>35,835,666</u>
Increase in net assets	4,905,582	2,798,681
Net Assets, Beginning of Year	<u>(8,635,996)</u>	<u>(11,434,677)</u>
Net Assets, End of Year	<u><u>\$ (3,730,414)</u></u>	<u><u>\$ (8,635,996)</u></u>

Financial Analysis of the District as a Whole

Total revenues exceeded expenditures by \$4,905,582, reducing the deficit in total net assets to \$3,730,414. Unrestricted net assets increased by \$1,550,809, to \$2,443,857 at June 30, 2007.

The District's financial position is the product of many factors. Student numbers decreased from the previous year while the State per-pupil allocation increased by \$210. In addition, the District incorporated over \$1 million in expenditure cuts in its original 2006-07 budget. In 2004-05 the District entered into an agreement with the teacher's union to offer a severance package to teachers with ten or more years of service. The total cost of the severance package (granted in June, 2005) is \$557,420 for each of three years, beginning in 2005-06, which was entirely expensed on the Statement of Activities in the 2004-05 school year.

The District's total revenues increased 3.3 percent to \$39.9 million. Property taxes and state aid accounted for most of the District's revenue, contributing 82 cents of every dollar collected. Another 12 percent came from state and federal aid for specific programs, and the remainder from fees charged for services, interest earnings and miscellaneous sources.



The total cost of all programs and services decreased approximately 2 percent to \$35 million, due mainly to interest savings on long-term debt. The District's expenses are predominantly related to instructing, caring for (pupil services) and transporting students (65 percent). The District's administrative and business activities accounted for 10 percent of total costs. Operation and maintenance costs accounted for another 8 percent of total costs.

The District continues to monitor the State economy and District budget and demographics in an attempt to protect academic programs and opportunities during challenging economic times. Regular updates on the budget and District finances were provided to the Board of Education, community groups, staff, and parents.

- Information was available to community members and parents via the local cable channel, where monthly Board of Education meetings were broadcast. At each monthly Board meeting and at the monthly Board workshop meetings, budget information was shared. The Board was kept updated on the changing economy and the impact on the 2006-07 budget.
- The Superintendent and/or designees continue to communicate throughout the year with parents and community members to share information vital to their understanding of the operations of the District.
- Information was also shared throughout the year through Family Links (parent support groups), the Lowell Area Schools website, a school newsletter distributed to families living within the Lowell community, and monthly to the Lowell Chamber of Commerce.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

The District utilizes two kinds of funds:

- *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them.
- *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others, such as Scholarship Funds and Student Activities Funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.



Financial Analysis of the District's Funds

The District uses funds to record and analyze financial information. Lowell Area Schools' funds are described as follows:

Major Fund

General Fund

The General Fund is the District's primary operating fund. The General Fund had total revenues of \$33,495,718 and other financing sources (loan proceeds for the purchase of buses) of \$190,000, total expenditures of \$32,587,664, and other financing uses (contribution to the Athletic Fund) of \$321,145. It ended the fiscal year with a fund balance of \$3,420,847, an increase of \$776,909 over the June 30, 2006 balance.

Nonmajor Funds

Special Revenue Funds

The District operates two Special Revenue Funds, for the food service and athletics programs:

- Total revenue for the Food Service Fund was \$1,235,332, with total expenditures of \$1,184,058 and a June 30, 2007 fund balance of \$173,983.
- Total revenue for the Athletic Fund was \$285,991 with additional General Fund contributions of \$321,145. Total expenditures were \$614,996, with seventy-five percent (75%) dedicated to salaries and benefits. The fund balance decreased from \$21,540 to \$13,680 for the year ended June 30, 2007.

Debt Service Funds

The District operates five Debt Service Funds. Total revenues for the funds were \$4,939,123. Total expenditures were \$4,803,580. The ending fund balances in the Debt Service Funds were \$632,036.

Capital Projects Funds

The District operates one Capital Projects Fund, the 2004 Construction Fund. Total revenue for the fund was \$8,476 and total expenditures were \$72,099. The ending fund balance in the Capital Projects Fund was \$152,002.

Fiduciary Funds

The Student Activity Fund, Flexible Benefits Fund and the Scholarship Fund are operated as Trust and Agency Funds of the District. The assets of these funds are being held for the benefit of the District's students and employees. Balances on hand at June 30, 2007 totaled \$1,101,577.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget two times after the June, 2006 adoption. These budget amendments fall into two categories:

- Changes made in December to account for the final student enrollment that determines how much foundation grant state school aid will be received during the fiscal year.
- Final changes made in June to reflect actual revenue and expenditures anticipated at June 30, 2007.



Although the District's final budget for the General Fund anticipated that revenue would exceed expenditures by \$496,288, the actual results for the year show an increase of \$776,909:

- Actual revenues were \$21,054 higher than expected, due primarily to KISD reimbursements and State Aid adjustments.
- Actual expenditures were \$259,567 below budget, due primarily to reduced costs in special education transportation.

Capital Asset and Debt Administration

Capital Assets

By the end of 2007, the District had invested \$60.3 million in a broad range of capital assets, including land, school buildings, athletic facilities, school buses, and furniture and equipment. This amount represents a minimal increase of roughly \$330,000 or less than one percent from last year. (More detailed information about capital assets can be found in Note E in the notes to basic financial statements.) Total depreciation expense for the year was \$1.53 million.

At June 30, 2007, the District's investment in capital assets (net of accumulated depreciation), including land, land improvements, buildings, vehicles, furniture and equipment, was \$38.8 million. This represents a decrease of approximately \$1 million from the previous year-end.

Land	\$ 1,272,547
Land improvements	597,247
Buildings	35,810,100
Furniture and equipment	470,800
Vehicles	655,007
	<hr/>
Net Capital Assets	\$ 38,805,701
	<hr/>

Long-Term Debt

At year end, the District had \$44.9 million in general obligation bonds and other long-term debt outstanding – a net decrease of \$4.2 million from last year.

- The District continued to pay down its debt, retiring \$3.64 million of outstanding bonds and installment purchase agreements.

As of June 30, 2007, the District's outstanding Unlimited Tax General Obligation Bonds have the bond ratings of "Aaa" / "AAA" by Moody's Investors Service and Standard and Poor's, respectively. These bond ratings reflect that the District's Unlimited Tax General Obligation Bonds are fully qualified for the Michigan School Bond Loan Fund Program, a State constitutional credit enhancement program. The underlying bond ratings for such bond issues is "A3" / "A", respectively, without regard to such participation in the Michigan School Bond Loan Fund Program. The state limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the District's boundaries. The District's other obligations include early retirement incentive, compensated absences, and accumulated vacation days. We present more detailed information about our long-term liabilities in Note G in the Notes to Basic Financial Statements.



Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of the following circumstances that could significantly affect its financial health in the future:

- The State of Michigan continues to encounter economic difficulties and struggles with declining revenues and increased demands from many sources. As a result, the general and school aid funds at the State level are both impacted, which in turn affects school districts across the State.
- The rising cost of health insurance continues to be a concern.
- The rising cost of employee retirement, controlled by the State, is a significant cause for concern into the future. For every dollar paid to employees throughout the year, the District pays a percentage into the Michigan Public Schools Employee Retirement System (MPERS). In 2006-07, the District paid 17.74% of every dollar of payroll into the MPERS. This percentage will decrease to 16.72% in 2007-08. Potential future increases of this percentage are a concern.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Lowell Area Schools, 300 High Street, Lowell, MI 49331 via e-mail to the attention of John Zielinski, Chief Financial Officer - jzielinski@lowellschools.com.

BASIC FINANCIAL STATEMENTS

LOWELL AREA SCHOOLS
Statement of Net Assets
June 30, 2007

	Governmental Activities
Assets	
Current Assets	
Cash equivalents, deposits and investments (Note B)	\$ 5,556,085
Taxes receivable (Note C)	20,164
Accounts receivable	27,402
Due from other governmental units (Note C)	4,877,235
Inventory (Note A)	55,648
Prepaid expenses	1,101,500
Total Current Assets	<u>11,638,034</u>
Noncurrent Assets	
Capital assets (Note E)	60,278,268
Less accumulated depreciation	<u>(21,472,567)</u>
Total Noncurrent Assets	<u>38,805,701</u>
Total Assets	<u>50,443,735</u>
Liabilities	
Current Liabilities	
Accounts payable	651,715
State aid loan payable (Note F)	3,200,000
Due to other governmental units	934,567
Accrued interest payable	2,700,886
Salaries payable	1,785,544
Current portion of long term obligations	4,853,294
Total Current Liabilities	<u>14,126,006</u>
Noncurrent Liabilities (Notes A, G)	
General obligation bonds payable	41,413,310
Durant non-plaintiff bonds payable	351,677
Energy conservation bonds payable	1,690,000
Installment purchase agreements payable	277,966
Early retirement incentive	681,679
Accumulated vacation pay	104,631
Accumulated sick leave	382,174
Current portion of long term obligations	<u>(4,853,294)</u>
Total Noncurrent Liabilities	<u>40,048,143</u>
Total Liabilities	<u>54,174,149</u>
Net Assets	
Invested in capital assets, net of related debt	(6,853,216)
Restricted for:	
Debt service	526,943
Capital projects	152,002
Unrestricted	<u>2,443,857</u>
Total Net Assets	<u>\$ (3,730,414)</u>

See accompanying notes to basic financial statements.

LOWELL AREA SCHOOLS
Statement of Activities
For the year ended June 30, 2007

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes In Net Assets
		Charges for Services	Operating Grants	
Governmental Activities				
Instruction	\$ 19,372,506	\$ 63,683	\$ 3,259,625	\$(16,049,198)
Supporting services	12,536,646	124,639	900,924	(11,511,083)
Community services	435,750	173,847	-	(261,903)
Food service	1,243,022	786,295	442,458	(14,269)
Athletics	697,987	282,986	-	(415,001)
Other	23,264	-	-	(23,264)
Interest on long-term debt	712,382	-	-	(712,382)
Total Governmental Activities	\$ 35,021,557	\$ 1,431,450	\$ 4,603,007	(28,987,100)
General Revenues				
Taxes:				
Property taxes, levied for general operations				3,049,957
Property taxes, levied for debt service				4,843,685
State school aid, unrestricted				24,859,156
Interest and investment earnings				270,165
Loss on sale of capital assets				(19,601)
Other				889,320
Total General Revenues				33,892,682
Change in Net Assets				4,905,582
Net Assets - Beginning of Year				(8,635,996)
Net Assets - End of Year				\$ (3,730,414)

See accompanying notes to basic financial statements.

LOWELL AREA SCHOOLS
Balance Sheet
Governmental Funds
June 30, 2007

	General	Nonmajor	Total
Assets			
Cash equivalents, deposits and investments (Note B)	\$ 4,648,633	\$ 907,452	\$ 5,556,085
Taxes receivable (Note C)	14,468	5,696	20,164
Accounts receivable	20,303	2,099	22,402
Due from other funds (Note D)	5,000	2,995	7,995
Due from other governmental units (Note C)	4,866,532	10,703	4,877,235
Inventory (Note A)	41,318	14,330	55,648
Prepaid expenditures	503,093	63,325	566,418
Total Assets	\$ 10,099,347	\$ 1,006,600	\$ 11,105,947
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 627,866	\$ 23,849	\$ 651,715
State aid loan payable (Note F)	3,200,000	-	3,200,000
Due to other funds (Note D)	2,995	-	2,995
Due to other governmental units	933,483	1,084	934,567
Accrued interest payable	118,414	-	118,414
Salaries payable	1,781,274	4,270	1,785,544
Deferred revenue	14,468	5,696	20,164
Total Liabilities	6,678,500	34,899	6,713,399
Fund Balances			
Reserved for:			
Debt service	-	632,036	632,036
Capital outlay	-	152,002	152,002
Unreserved:			
Undesignated, reported in:			
General fund	3,420,847	-	3,420,847
Special revenue funds	-	187,663	187,663
Total Fund Balances	3,420,847	971,701	4,392,548
Total Liabilities and Fund Balances	\$ 10,099,347	\$ 1,006,600	\$ 11,105,947

See accompanying notes to basic financial statements.

LOWELL AREA SCHOOLS
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2007

Total governmental fund balances \$ 4,392,548

Amounts reported for governmental activities in the Statement of Net
Assets are different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported as assets in
governmental funds. The cost of assets is \$60,278,268
and accumulated depreciation is \$21,472,567. 38,805,701

Net bond premium and refunding and issuance costs are not
expensed but are amortized over the life of the new bond issue. 535,082

Long-term liabilities, including bonds payable, are not due and
payable in the current period and therefore are not reported
as liabilities in the funds. Long-term liabilities at year end
consist of:

General obligation bonds	\$(41,413,310)	
Durant non-plaintiff bonds	(351,677)	
Energy conservation bonds	(1,690,000)	
Installment purchase agreements	(277,966)	
Early retirement incentive	(681,679)	
Accumulated vacation pay	(104,631)	
Accumulated sick leave	(382,174)	
	<u>(44,901,437)</u>	

Accrued interest is not included as a liability in governmental funds. (2,582,472)

Deferred revenue recognized as revenue in the full accrual statements:
Property taxes 20,164

Total Net Assets - Governmental Activities \$ (3,730,414)

See accompanying notes to basic financial statements.

LOWELL AREA SCHOOLS
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2007

	General	Nonmajor	Total
Revenues			
Local sources	\$ 4,476,013	\$ 6,026,464	\$ 10,502,477
State sources	25,340,825	69,771	25,410,596
Federal sources	1,019,206	372,687	1,391,893
Interdistrict sources	2,659,674	-	2,659,674
Total Revenues	33,495,718	6,468,922	39,964,640
Expenditures			
Current:			
Instruction	18,965,206	-	18,965,206
Supporting services	12,558,843	-	12,558,843
Community services	397,267	-	397,267
Food service	-	1,184,058	1,184,058
Athletics	-	614,996	614,996
Capital outlay	250,388	72,099	322,487
Debt service:			
Principal repayment	334,128	3,300,000	3,634,128
Interest and fiscal charges	81,832	1,503,580	1,585,412
Total Expenditures	32,587,664	6,674,733	39,262,397
Excess (Deficiency) of Revenues Over Expenditures	908,054	(205,811)	702,243
Other Financing Sources (Uses)			
Loan proceeds	190,000	-	190,000
Transfers in	-	321,145	321,145
Transfers out	(321,145)	-	(321,145)
Total Other Financing Sources (Uses)	(131,145)	321,145	190,000
Net Change in Fund Balances	776,909	115,334	892,243
Fund Balances, Beginning of Year	2,643,938	856,367	3,500,305
Fund Balances, End of Year	\$ 3,420,847	\$ 971,701	\$ 4,392,548

See accompanying notes to basic financial statements.

LOWELL AREA SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the year ended June 30, 2007

Net change in fund balances - total governmental funds **\$ 892,243**

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is capitalized and the cost is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period:

Capital outlays	\$ 549,112	
Depreciation expense	<u>(1,529,914)</u>	(980,802)

As some delinquent personal property taxes will not be collected for several years after the District's fiscal year ends, they are not considered "available" revenues in the governmental funds, and are instead counted as deferred tax revenues. They are, however, recorded as revenues in the Statement of Activities. (11,055)

Net bond premium and refunding and issuance costs are not expensed but but are amortized over the life of the new bond issue. (23,264)

In the Statement of Activities, only the loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale(s) increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the assets sold/retired. (26,446)

Proceeds from the sale of bonds or loans are an other financing source in the governmental funds, but increase long-term liabilities in the Statement of Net Assets. (190,000)

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not effect the Statement of Activities:

Repayment of bonds	3,300,000	
Repayment of energy conservation bonds	210,000	
Repayment of installment purchase agreements	<u>125,072</u>	3,635,072

Interest on long-term liabilities in the Statement of Activities differs from the amount reported on the governmental funds because interest is recorded as an expenditure in the funds when it is due and paid, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues regardless of when it is paid. 872,085

In the Statement of Net Assets, early retirement incentive, accumulated sick/vacation pay and compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year the amount of these benefits used/paid (\$1,066,713) exceeded the amounts earned (\$328,964). 737,749

Total change in net assets - governmental activities **\$ 4,905,582**

See accompanying notes to basic financial statements.

LOWELL AREA SCHOOLS
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2007

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Local sources	\$ 4,093,372	\$ 4,434,977	\$ 4,476,013	\$ 41,036
State sources	25,212,562	25,331,549	25,340,825	9,276
Federal sources	1,072,100	1,067,074	1,019,206	(47,868)
Interdistrict sources	2,408,161	2,641,064	2,659,674	18,610
Total Revenues	32,786,195	33,474,664	33,495,718	21,054
Expenditures				
Current:				
Instruction:				
Basic programs	15,806,495	15,402,082	15,428,990	(26,908)
Added needs	3,329,456	3,487,426	3,519,511	(32,085)
Adult education services	17,555	17,206	16,705	501
Supporting services:				
Pupil services	796,458	1,767,168	1,770,209	(3,041)
Instructional staff services	744,842	959,373	915,160	44,213
General administrative services	549,803	519,193	508,057	11,136
School administrative services	2,022,914	2,147,812	2,157,411	(9,599)
Business services	688,970	822,316	826,732	(4,416)
Operation and maintenance services	3,398,812	2,978,362	2,969,892	8,470
Pupil transportation services	1,553,684	3,038,843	2,797,931	240,912
Central services	598,745	633,794	613,451	20,343
Community services	414,093	396,808	397,267	(459)
Capital outlay	-	250,388	250,388	-
Debt service:				
Principal repayment	336,236	334,128	334,128	-
Interest and fiscal charges	85,435	81,832	81,832	-
Interdistrict	2,488,781	-	-	-
Total Expenditures	32,832,279	32,836,731	32,587,664	249,067
Excess (Deficiency) Of Revenues Over Expenditures	(46,084)	637,933	908,054	270,121
Other Financing Sources (Uses)				
Loan proceeds	-	190,000	190,000	-
Transfers out	(291,583)	(331,645)	(321,145)	10,500
Total Other Financing Sources (Uses)	(291,583)	(141,645)	(131,145)	10,500
Net Change in Fund Balances	(337,667)	496,288	776,909	280,621
Fund Balances, July 1	2,643,938	2,643,938	2,643,938	-
Fund Balances, June 30	\$ 2,306,271	\$ 3,140,226	\$ 3,420,847	\$ 280,621

See accompanying notes to basic financial statements.

LOWELL AREA SCHOOLS
Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2007

	Private Purpose Trust Funds	Agency Funds
	<u> </u>	<u> </u>
Assets		
Cash equivalents, deposits and investments (Note B)	\$ 830,065	\$ 318,886
	<u> </u>	<u> </u>
Liabilities		
Due to other funds (Note D)	\$ 5,000	\$ -
Due to student groups	-	318,886
Due to employees	42,374	-
	<u> </u>	<u> </u>
Total Liabilities	47,374	\$ 318,886
	<u> </u>	<u> </u>
Net Assets		
Held in trust for:		
Individuals and organizations	\$ 782,691	
	<u> </u>	

See accompanying notes to basic financial statements.

LOWELL AREA SCHOOLS
Fiduciary Funds
Statement of Changes in Fiduciary Net Assets
For the year ended June 30, 2007

	Private Purpose Trust Fund
Additions	
Donations	\$ 13,272
Interest earnings	47,860
Total Additions	61,132
Deductions	
Endowment activities - scholarships	12,796
Change In Net Assets	48,336
Net Assets, Beginning of Year	734,355
Net Assets, End of Year	<u>\$ 782,691</u>

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

LOWELL AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

Note A – Summary of Significant Accounting Policies

Lowell Area Schools was organized under the School Code of the State of Michigan, and services a population of approximately 3,868 students. The District is governed by an elected Board of Education consisting of seven members and administered by a Superintendent who is appointed by the aforementioned Board. The District provides a comprehensive range of educational services as specified by state statute and Board of Education policy. These services include elementary education, secondary education, pre-school programs, athletic activities, special education, community services and general administrative services. The Board of Education also has broad financial responsibilities, including the approval of the annual budget and the establishment of a system of accounting and budgetary controls.

The financial statements of Lowell Area Schools (the “District”) have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the District’s accounting policies are described below.

1. Reporting Entity

The financial reporting entity consists of a primary government and its component units. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and the District is not included in any other governmental reporting entity. Consequently, the District’s financial statements include the funds of those organizational entities for which its elected governing board is financially accountable.

2. District-Wide and Fund Financial Statements

District-Wide Financial Statements - The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) present financial information about the District as a whole. The reported information includes all of the nonfiduciary activities of the District. The District does not allocate indirect costs and, for the most part, the effect of interfund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the District. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type* activities, which rely to a significant extent on fees and charges for support. The District does not have any business-type activities.

The Statement of Net Assets is presented on the classified basis and is reported on the full accrual, economic resource basis, which recognizes all long-term assets as well as all long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, unrestricted state aid, interest earnings and other items not included among program revenues are reported instead as *general revenues*.

LOWELL AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the government wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The General Fund is the District's only major fund. Non-major funds are aggregated and presented in a single column.

Fund Financial Statements – Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the district-wide level. Reconciliations between the two sets of statements are provided in separate statements.

Revenues are recognized when susceptible to accrual; i.e., both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred, if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt is recognized when due.

Revenues susceptible to accrual are property taxes, state aid, federal and interdistrict revenues and investment income. Other revenues are recognized when received. Deferred revenue arises when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenue also arises when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of the qualifying expenditures.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the fiduciary fund financial statement. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenues in accordance with state law and accounting principles generally accepted in the United States of America.

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of a school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

LOWELL AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

General Fund—The General Fund is the general operating fund of a school district. It is used to account for all financial resources, except those required to be accounted for in another fund. Included are all transactions related to the current operating budget.

Special Revenue Funds—Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

School Service Funds—School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. A school district maintains full control of these funds. The School Service Funds maintained by the District are the Food Service and Athletic Funds.

Debt Service Funds—Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt (bonds, notes, loans, leases and school bond loan) principal, interest, and related costs.

Capital Projects Funds—Capital Projects Funds are used to record bond proceeds, property tax revenues or other revenues and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment and for major remodeling and repairs. The funds are retained until the purpose for which the funds were created has been accomplished.

The Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the District has complied with the applicable provisions of Section 1351a of the State of Michigan's School Code.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by a school district in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Fiduciary Fund net assets and results of operations are not included in the district-wide financial statements. Fiduciary funds are reported using the economic resources measurement focus. The District presently maintains scholarship funds for the benefit of students.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student groups for school and school related purposes. The funds are segregated and held in trust for the students.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the district-wide and fiduciary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted as they are needed.

LOWELL AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

4. Budgets and Budgetary Accounting

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of a school district be under budgetary control and that both budgeted and actual financial results do not incur a deficit. Lowell Area Schools has also adopted budgets for its Special Revenue Funds. A school district's General Appropriations Resolution (the "budget") must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from a district's budget may occur without a corresponding amendment to the budget. A school district has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year-end. A school district may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Education. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations lapse at the end of the fiscal year.

Lowell Area Schools utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- Starting in the spring, District administrative personnel and department heads work with the Superintendent and Associate Superintendent for Finance to establish proposed operating budgets for the fiscal year commencing the following July 1.
- In June, preliminary operating budgets are submitted to the Board of Education. These budgets include proposed expenditures and the means of financing them.
- Prior to June 30, a public hearing is held to obtain taxpayer comments on the proposed budgets.
- After the budgets are finalized, the Board of Education adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.
- The original General and Special Revenue Funds budgets were amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act).
- Budgets for the General and Special Revenue Funds were adopted on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

5. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. There were no substantial encumbrances outstanding at year end.

6. Investments

Investments are recorded at fair value, based on quoted market prices, or estimated fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

LOWELL AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

7. Inventory

Inventories are valued at cost (first-in, first-out). Inventories of the General Fund consist of teaching and custodial supplies. Inventories of the Food Service Fund consist of food, unused commodities and other nonperishable supplies. Disbursements for inventory-type items are recorded as expenditures at the time of use for each fund.

8. Capital Assets

Capital assets, which include land, land improvements, buildings, vehicles and furniture and equipment, are reported in the district-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed \$5,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related assets.

Land improvements, buildings and additions, vehicles and furniture and equipment are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	10-20 years
Buildings and additions	40-50 years
Vehicles	5-10 years
Furniture and equipment	3-10 years

9. Long-Term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported at the total amount of bonds issued.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

10. Early Retirement Incentive, Accumulated Vacation Pay and Sick Leave

Early retirement incentive and accumulated vacation pay and sick leave at June 30, 2007 have been computed and recorded in the basic financial statements of the District. Eligible District employees who select early retirement are entitled to a termination leave payment based on their age and years of service. Employees who leave the District are also entitled to reimbursement for a portion of their unused vacation and sick days. At June 30, 2007, the accumulated liabilities, including salary related payments, (expected to be financed by General Fund revenues) for early retirement incentive, accumulated vacation pay and accumulated sick leave amounted to \$681,679, \$104,631 and \$382,174, respectively.

LOWELL AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

11. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for expenditures or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

12. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

13. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note B – Cash Equivalents, Deposits and Investments

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- Bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this state under the laws of this state or the United States.
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of the purchase.
- United States or federal obligation repurchase agreements.
- Banker's acceptances of United States Banks.
- Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.
- Surplus funds investment pools.

LOWELL AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

Balances at June 30, 2007 related to cash equivalents, deposits and investments are detailed in the Basic Financial Statements as follows:

Statement of Net Assets:	
Governmental activities	\$ 5,556,085
Fiduciary Funds:	
Agency Fund	<u>1,148,951</u>
	<u>\$ 6,705,036</u>

Depositories actively used by the District during the year are detailed as follows:

1. Huntington National Bank

Cash equivalents consist of bank public funds checking accounts. Deposits consist of certificates of deposit.

June 30, 2007 balances are detailed as follows:

Cash equivalents	\$ 1,482,319
Deposits	<u>5,189,508</u>
	<u>\$ 6,671,827</u>

Custodial credit risk

Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to the District. Protection of District cash equivalents and deposits is provided by the Federal Deposit Insurance Corporation. At year end, the carrying amount of the District's cash equivalents and deposits was \$6,705,036 and the bank balance was \$6,938,936. Of the bank balance, \$100,000 was covered by federal depository insurance and \$6,838,936 was uninsured.

Investments

As of June 30, 2007 the District had the following investments:

	<u>Fair Value</u>
Investment Pool Accounts:	
Huntington National Bank	<u>\$ 33,209</u>

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the District may not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District minimizes custodial credit risk by limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Credit Risk

The District's investments in the Huntington National Bank investment pool was unrated.

LOWELL AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

Interest Rate Risk

The District minimizes interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market, and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements and by investing operating funds primarily in shorter term investments under 365 days. Unless matched to a specific cash flow, the District will not directly invest in securities maturing more than 18 months from the date of purchase. Reserve funds may be invested in securities exceeding 18 months if the maturity of such investments are made to coincide as nearly as practicable with the expected use of funds.

Concentration of Credit Risk

The District's investment policy places no restrictions on the amount or percentage that may be invested in any one type of security.

Foreign Currency Risk

The District is not authorized to invest in investments which have this type of risk.

Note C – State School Aid/Property Taxes

On March 15, 1994, the voters of the State of Michigan approved Proposal A, which increased the State Sales and Use Tax rates from 4% to 6% and established a State Education Tax at a rate of 6 mills on all property, except that which is exempt by law from ad valorem property taxes, and dedicated the additional revenues generated to Michigan school districts. The amount of 2006 ad valorem State Education Taxes generated within the Lowell Area School District, and paid to the State of Michigan, totaled \$4,121,918.

These additional State revenues pass through to Michigan school districts in the form of a per pupil "Foundation Allowance" paid on a "blended count" of District pupil membership in February, 2006 and September, 2006. The 2006-07 "Foundation Allowance" for Lowell Area Schools was \$7,085 for 3,879 "Full Time Equivalent" students, generating \$25,389,936 in state aid payments to the District of which \$4,295,614 was paid to the District in July and August, 2007 and included in "Due From Other Governmental Units" of the General Fund and Food Service Special Revenue Fund of the District.

Property taxes for the District are levied July 1 and December 1 under a split-levy by the City of Lowell and the Townships of Ada, Bowne, Cannon, Cascade, Grattan, Lowell, Vergennes, Boston, Campbell and Keene. The taxes are then collected by each governmental unit and remitted to the District. The Counties of Kent and Ionia, through their Delinquent Tax Revolving Fund, advance all delinquent real property taxes at March 1 to the District each year prior to June 30. Delinquent personal property taxes receivable are detailed as follows:

Tax Year	General	Debt Service	Total
2006	\$ 10,199	\$ 3,968	\$ 14,167
2005	3,277	1,349	4,626
2004	992	379	1,371
	<hr/>	<hr/>	<hr/>
	\$ 14,468	\$ 5,696	\$ 20,164

LOWELL AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

Taxes uncollected after three years from the date of levy, unless material in amount, are written off the books of the District.

Section 1211(1) of 1993 PA 312 states that beginning in 1994, the board of a school district shall levy not more than 18 mills, if approved by voters, for school operating purposes, or the number of mills levied in 1993, whichever is less, on non-homestead property only, in order to be eligible to receive funds under the State School Aid Act of 1979. After 1996, electors may approve a 3 mill "Local Enhancement Millage" which must be shared between all local districts in each respective county intermediate district.

Lowell Area Schools' electors had previously (September 24, 1991) approved an operating millage extension for the 18 mill non-homestead property tax, which was levied in 2006-07 for operating purposes.

The District levied 7.0 mills in 2006-07 for debt service purposes, applied on all taxable property in the District.

Taxable property in the District is assessed initially at 50% of true cash value by the assessing officials of the various units of government that comprise the District. These valuations are then equalized by the county and finally by the State of Michigan, generating the State Equalized Valuation. Taxable valuation increases will be limited, or capped (known as capped valuation), at 5% or the rate of inflation, whichever is less. With the implementation of Proposal A, taxable property is now divided into two categories: homestead and non-homestead.

Homestead property is exempt from the 18 mill "School Operating" tax. It is not exempt from the 6 mill "State Education" tax, any voted "Local Enhancement Millage", nor any additional voted millage for the retirement of debt.

Non-homestead property is considered to be all property not qualifying for a homestead exemption, which includes all commercial and industrial property. Non-homestead property is subject to all District levies.

Note D – Interfund Receivables/Payables and Transfers

Amounts due from (to) other funds representing interfund receivables and payables for cash flow advances at June 30, 2007 are detailed as follows:

	<u>Due From</u>	<u>Due To</u>
General Fund:		
Trust and Agency Funds:		
Flexible Benefits Fund	\$ 5,000	\$ —
Capital Projects Funds:		
2004 Construction Fund	—	2,995
Capital Projects Funds:		
2004 Construction Fund:		
General Fund	2,995	—
Trust and Agency Funds:		
Flexible Benefits Fund:		
General Fund	—	5,000
Total All Funds	<u>\$ 7,995</u>	<u>\$ 7,995</u>

LOWELL AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

Transfers between funds during the year ended June 30, 2007 were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund		
Special Revenue Fund:		
Athletics Fund	—	321,145
Special Revenue Fund		
Athletics Fund:		
General Fund	321,145	—
Total All Funds	<u>\$ 321,145</u>	<u>\$ 321,145</u>

The General Fund transfer to the Athletic Fund was made to pay the General Fund's share of support for the athletic program for the fiscal year.

Note E – Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	<u>Balances July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances June 30, 2007</u>
Capital assets not depreciated:				
Land	\$ 1,022,158	\$ 250,388	\$ —	\$ 1,272,546
Capital assets being depreciated:				
Land improvements	1,324,760	64,485	—	1,389,245
Buildings and additions	54,095,831	32,132	—	54,127,963
Furniture and equipment	1,189,941	11,439	—	1,201,380
Vehicles	2,315,125	190,668	218,659	2,287,134
Totals at historical cost	<u>59,947,815</u>	<u>\$ 549,112</u>	<u>\$ 218,659</u>	<u>60,278,268</u>
Less accumulated depreciation for:				
Land improvements	727,253	\$ 64,744	\$ —	791,997
Buildings and additions	17,116,930	1,200,933	—	18,317,863
Furniture and equipment	659,307	71,273	—	730,580
Vehicles	1,631,376	192,964	192,213	1,632,127
Total accumulated depreciation	<u>20,134,866</u>	<u>\$ 1,529,914</u>	<u>\$ 192,213</u>	<u>21,472,567</u>
Net Capital Assets	<u>\$ 39,812,949</u>			<u>\$ 38,805,701</u>

LOWELL AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

Depreciation expense was charged to District activities as follows:

Governmental activities:	
Instruction	\$ 1,035,517
Supporting services	314,315
Community services	38,483
Food service	58,608
Athletics	82,991
	<u>\$ 1,529,914</u>

Note F – Short-term Debt

On August 19, 2005, the District borrowed \$2,300,000 in anticipation of state aid (interest at 2.92%). The loan was repaid on August 18, 2006. On August 18, 2006, the District borrowed \$3,200,000 in anticipation of State aid (interest at 3.68%). The loan is due to be repaid in full on August 20, 2007. Interest expense on the loans was \$118,414 for the fiscal year.

Note G – Long-term Debt

Amounts available and to be provided for outstanding long-term debt at June 30, 2007 are summarized as follows:

	General Obligation Bonds	Durant Non-plaintiff Bonds	Energy Conservation Bonds	Installment Purchase Agreements	Early Retirement Incentive/ Accumulated Sick/Vacation	Total
Amount Available For Retirement Of Long- Term Debt						
Debt Service Funds	\$ 632,036	\$ —	\$ —	\$ —	\$ —	\$ 632,036
Amounts To Be Provided For Retirement Of Long- Term Debt						
State of Michigan	—	351,677	—	—	—	351,677
General Fund	—	—	1,690,000	277,966	1,168,484	3,136,450
Debt Service Funds	40,781,274	—	—	—	—	40,781,274
Total Amounts Available and To Be Provided	<u>\$41,413,310</u>	<u>\$ 351,677</u>	<u>\$ 1,690,000</u>	<u>\$ 277,966</u>	<u>\$ 1,168,484</u>	<u>\$44,901,437</u>

LOWELL AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

Changes in long-term debt for the year ended June 30, 2007 are summarized as follows:

	Debt Outstanding July 1, 2006	Debt Added	Debt Retired	Debt Outstanding June 30, 2007
General obligation bonds:				
October 6, 1992	\$ 15,598,310	\$ —	\$ —	\$ 15,598,310
June 3, 1997	14,130,000	—	2,800,000	11,330,000
November 1, 2000	1,625,000	—	325,000	1,300,000
March 25, 2004	3,440,000	—	140,000	3,300,000
June 29, 2005	9,920,000	—	35,000	9,885,000
Durant non-plaintiff bonds:				
November 13, 1998	351,677	—	—	351,677
Energy conservation bonds:				
August 1, 2004	1,900,000	—	210,000	1,690,000
Installment purchase agreements	213,038	190,000	125,072	277,966
Early retirement incentive	1,426,167	72,461	816,949	681,679
Accumulated vacation pay	122,342	169,181	186,892	104,631
Accumulated sick leave	357,724	87,322	62,872	382,174
	<u>\$ 49,084,258</u>	<u>\$ 518,964</u>	<u>\$ 4,701,785</u>	<u>\$ 44,901,437</u>

Long-term bonds and installment purchase agreements outstanding at June 30, 2007 are comprised of the following:

	Final Maturity Dates	Interest Rates	Outstanding Balance	Amount Due Within One Year
General Obligation Bonds				
Serial Bonds:				
\$16,545M 1997 Crossover Refunding:				
Annual maturities of \$3,270M to \$4,310M	June 3, 2010	5.20 – 6.00	\$11,330,000	\$3,270,000
\$13,015M 2000 Building and Site:				
Annual maturities of \$325M	Nov. 1, 2011	4.70 – 5.875	1,300,000	325,000
\$3,565M 2004 Building and Site:				
Annual maturities of \$150M	May 1, 2029	Variable*	3,300,000	150,000
\$10,025M 2005 Refunding:				
Annual maturities of \$40M to \$665M	May 1, 2030	3.00 - 5.00	9,885,000	40,000
Capital Appreciation Bonds:				
\$15,598,310 1992 General Obligation:				
Annual maturities of \$1,490M to \$1,645M	Oct. 6, 2020	6.35 – 6.40	15,598,310	—
Durant Non-plaintiff Bonds				
\$595,596 1998 School Improvement:				
Annual maturities of \$33M to \$208M	May 15, 2013	4.761353	351,677	—
Energy Conservation Improvement Bonds				
\$2,300M 2004 Improvement:				
Annual maturities of \$215M to \$270M	May 1, 2014	3.00 – 4.25	\$ 1,690,000	\$ 215,000

LOWELL AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

	Final Maturity Dates	Interest Rates	Outstanding Balance	Amount Due Within One Year
Installment Purchase Agreements				
\$110M 2003 School Buses:				
Annual maturity of \$22,000	Jan. 21, 2008	3.25	22,000	22,000
\$59M 2004 School Buses:				
Annual maturities of \$5,900 to \$11,800	Jan. 19, 2009	3.50	29,500	11,800
\$174M 2005 School Buses:				
Annual maturities of \$10,000 to \$60,000	Aug. 17, 2008	3.27	69,697	58,041
\$190M 2006 School Buses:				
Annual maturities of \$12,855 to \$50,054	Sept. 17, 2010	4.62	156,769	45,918
			<u>\$43,732,953</u>	<u>\$4,139,294</u>

The variable rate is based on the Security Industries Financial Management Association Index. The 2006-07 rates ranged from 3.790% to 3.990%. The annual requirements to pay principal and interest on long-term bonds and installment purchase agreements outstanding are as follows:

Year Ended June 30	Principal	Interest	Total
2008	\$ 4,139,294	\$ 1,333,815	\$ 5,473,109
2009	4,593,010	1,139,339	5,732,349
2010	5,145,677	893,960	6,039,638
2011	2,293,593	3,886,507	6,180,100
2012	2,479,604	4,256,742	6,736,346
2013	2,332,412	4,524,167	6,856,579
2014	2,313,292	4,891,693	7,204,985
2015	2,049,303	5,330,022	7,379,325
2016	2,093,790	5,825,450	7,919,240
2017	2,086,499	6,302,056	8,388,555
2018	2,124,757	6,838,913	8,963,670
2019	2,142,135	7,435,850	9,577,985
2020	2,159,587	8,082,913	10,242,500
2021	790,000	363,565	1,153,565
2022	815,000	325,880	1,140,880
2023	810,000	286,945	1,096,945
2024	805,000	248,260	1,053,260
2025	805,000	209,825	1,014,825
2026	795,000	175,975	970,975
2027	785,000	142,555	927,555
2028	780,000	105,120	885,120
2029	775,000	67,935	842,935
2030	620,000	31,000	651,000
	<u>\$ 43,732,953</u>	<u>\$ 62,698,487</u>	<u>\$106,431,440</u>

LOWELL AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

On June 29, 2005, the District issued \$10,025,000 in general obligation bonds to advance refund \$9,475,000 of outstanding 2000 general obligation bonds. The net proceeds were deposited with an escrow agent and used to purchase United States government securities. Under the terms of the agreement these securities, together with the interest earned to maturity, will be sufficient to pay principal and interest as it becomes due. This procedure relieves the District from being primarily liable for the debt and the District is virtually assured of not being required to make further payments with respect to the debt. These funds are not commingled with other funds and cannot be redeemed prior to maturity. Any excess funds will be returned to the District upon final payment of principal and interest (Scheduled to be May 1, 2010). This defeasance procedure allows the District to remove the related assets and liabilities from its financial statements, which it has done. The assets, now held by the escrow agent to be used for the remaining principal and interest due of \$11,092,656 on the defeased debt at June 30, 2007 are detailed in the following schedule:

	Cost	Market Value	Par Value
U.S. Government Securities	\$9,898,351	\$9,898,351	\$9,898,351

Note H – Retirement Plan

Substantially all District employees participate in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost sharing, multiple employer defined benefit public employee retirement system governed by the State of Michigan. The District's payroll for employees covered by MPERS for the year ended June 30, 2007 was \$17,254,217. A Basic Plan member may retire at age 55 with 30 or more years of credited service or at age 60 with 10 or more years of credited service. The annual retirement benefit, payable monthly for life, is equal to 1½ percent of a member's final average compensation multiplied by his/her number of years of credited service. Final average compensation is the employee's average salary over the last 5 years of credited service. Vested employees may retire at or after age 55 with 15 years of service and receive reduced retirement benefits.

School districts in the State of Michigan are required to contribute at a rate, annually determined by the State of Michigan, of covered employees' compensation to the MPERS plan. The contribution rate was 16.34% for the fiscal year ending September 30, 2006 and 17.74% for the fiscal year beginning October 1, 2006. The District's contributions to the plan for the fiscal years ended June 30, 2007, 2006 and 2005 were \$3,036,476, \$2,718,518, \$2,605,322, respectively.

The "actuarial accrued liability" is a standardized disclosure method of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPERS' funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among public employee retirement systems and employers.

The MPERS does not make separate measurements of assets and actuarial accrued liability for individual schools. The actuarial accrued liability at September 30, 2005 (the latest reporting date available expressed as \$ in millions) for the MPERS as a whole, determined through an actuarial valuation performed as of that date, was \$48,206. The MPERS' net assets available for benefits on that date were \$38,211 leaving an unfunded pension benefit obligation of \$9,995. Ten year historical trend information showing the MPERS' progress in

LOWELL AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2007

accumulating sufficient assets to pay benefits when due is presented in the September 30, 2006 Annual Report of the MPSERS, which may be obtained by contacting the System at P.O. Box 30171, Lansing, Michigan 48909-7671.

The total actuarial accrued liability (expressed as \$ in millions) increased by \$2,462 from September 30, 2004 to September 30, 2005. Not included in the pension benefit obligation above is any future obligation attributable to health, dental and vision insurance benefits which are funded on a cash disbursement basis. With the passage of Act 279 of 1996, making permanent the cash basis financing of health, dental and vision benefits, actuarially calculated liabilities for these benefits are no longer disclosed on the balance sheets.

Prior to January 1, 1990, participating employees could elect coverage under either the noncontributory Basic Plan or the contributory Member Investment Plan (MIP). Effective January 1, 1990, all new employees are automatically enrolled in MIP. Participants in MIP, who receive benefits in addition to those available under the Basic Plan, contribute a percentage of salary. The graduated contribution rate is based on total wages and is calculated at 3% of the first \$5,000; 3.6% of the next \$10,000; and 4.3% of all wages over \$15,000. MIP members may retire at any age with 30 years of service, or at age 60 with 5 years of service, with benefits based on a final average compensation period of 5 years for members of the Basic Retirement Plan and 3 years for members of the MIP Retirement Plan.

Post-employment benefits for health, dental, and vision insurance are available at retirement through the MPSERS. Retirees contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage. Required contributions for post-employment health care benefits are included as part of the District's total contribution to the MPSERS as discussed above.

Note I – Risk Management and Benefits

The District is a member of the West Michigan Risk Management Trust, a self-insurance program with districts pooling together to insure property, liability and auto exposure. Premiums from members of the Trust are determined through standard underwriting procedures. The members of the Trust have contributed amounts sufficient to fund individual and aggregate losses up to \$175,000 and \$865,000, respectively, on an annual basis. Excess insurance has been purchased to cover claims exceeding those amounts. A \$1,000 per occurrence deductible for property losses is maintained. The District paid \$136,567 in premiums to the Trust for the year ended June 30, 2007.

Health, life, workers' compensation and other employee insurance is provided by private insurance carriers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note J – Stewardship, Compliance and Accountability

The following District fund had actual expenditures exceed final budgeted expenditures for the year ended June 30, 2007, as follows:

	Budget	Actual	Unfavorable Variance
Athletics Special Revenue Fund	\$ 613,157	\$ 614,996	\$ 1,839

SUPPLEMENTAL INFORMATION

GENERAL FUND

To account for resources which are traditionally associated with the general operation of the District and not required to be accounted for in another fund.

LOWELL AREA SCHOOLS
General Fund
Comparative Balance Sheet
June 30, 2007 and 2006

	2007	2006
Assets		
Cash equivalents, deposits and investments	\$ 4,648,633	\$ 2,778,404
Receivables:		
Taxes	14,468	22,694
Accounts	20,303	5,077
Due from other funds	5,000	5,000
Due from other governmental units	4,866,532	5,242,530
Inventory	41,318	32,492
Prepaid expenditures	503,093	10,001
Total Assets	<u><u>\$ 10,099,347</u></u>	<u><u>\$ 8,096,198</u></u>
Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 627,866	\$ 604,732
State aid loan payable	3,200,000	2,300,000
Due to other funds	2,995	-
Due to other governmental units	933,483	743,494
Accrued interest payable	118,414	66,973
Salaries payable	1,781,274	1,714,367
Deferred revenue	14,468	22,694
Total Liabilities	<u>6,678,500</u>	<u>5,452,260</u>
Fund Balances		
Unreserved:		
Undesignated	<u>3,420,847</u>	<u>2,643,938</u>
Total Liabilities and Fund Balances	<u><u>\$ 10,099,347</u></u>	<u><u>\$ 8,096,198</u></u>

LOWELL AREA SCHOOLS
General Fund
Comparative Schedule of Revenues
For the years ended June 30, 2007 and 2006

	2007	2006
Local sources:		
Property taxes:		
Current property taxes	\$ 3,020,811	\$ 2,699,261
Delinquent property taxes	13,768	13,903
Other property taxes	11,993	6,036
Interest on delinquent taxes	11,611	11,619
	<u>3,058,183</u>	<u>2,730,819</u>
Interest earnings:		
Interest on deposits	163,962	77,694
Other local revenue:		
Community enrichment fees	152,277	125,762
Summer school fees	7,263	26,723
Driver education fees	56,420	81,115
Transportation reimbursements	27,390	14,266
Third party testing	20,786	23,150
Universal service fund	42,941	49,904
Beverage consortium commissions	87,662	86,341
Copy center charges	107,432	100,167
Indirect cost reimbursement	30,500	8,997
Rental of school facilities	24,479	33,482
Donations	532,611	364,180
Sale of school property	6,845	2,338
Insurance claims/reimbursements	33,522	47,963
Custodial/security reimbursement	21,570	34,782
Refunds of expenditures	73,767	65,039
Miscellaneous	28,403	11,134
	<u>1,253,868</u>	<u>1,075,343</u>
Total local sources	4,476,013	3,883,856
State sources:		
State aid	25,340,213	24,766,652
School improvement	-	2,741
Other	612	2,524
	<u>25,340,825</u>	<u>24,771,917</u>
Total state sources		
Federal sources:		
Title I	262,387	264,176
Title II A	54,420	90,691
Title II D	2,786	4,928
Title V	800	1,585
I.D.E.A. program	676,150	679,670
Technological education	14,167	25,193
Medicaid - school based	2,720	4,551
Drug free schools	5,776	6,668
	<u>1,019,206</u>	<u>1,077,462</u>
Total federal sources		

(Continued)

LOWELL AREA SCHOOLS
General Fund
Comparative Schedule of Revenues
For the years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Interdistrict sources:		
Special education - county	\$ 1,657,890	\$ 1,563,444
Special education - transportation	850,677	965,763
Special education - itinerants	50,247	79,198
Durant settlement reimbursements	12,250	30,484
Medicaid fee for service	88,610	116,350
Total interdistrict sources	<u>2,659,674</u>	<u>2,755,239</u>
Total Revenues	<u><u>\$ 33,495,718</u></u>	<u><u>\$ 32,488,474</u></u>

LOWELL AREA SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2007 and 2006

	2007	2006
Current:		
Instruction:		
Basic programs:		
Elementary:		
Salaries	\$ 4,168,212	\$ 4,028,337
Employee benefits	2,124,504	1,995,048
Purchased services	95,162	2,990
Supplies	114,844	241,770
	<u>6,502,722</u>	<u>6,268,145</u>
Middle school:		
Salaries	2,131,703	2,102,273
Employee benefits	1,201,335	1,152,072
Purchased services	35,267	3,849
Supplies	88,995	150,334
Capital outlay	10,942	21,319
	<u>3,468,242</u>	<u>3,429,847</u>
High school:		
Salaries	3,343,463	3,245,514
Employee benefits	1,732,573	1,628,132
Purchased services	88,976	36,664
Supplies	188,310	185,824
Capital outlay	-	16,641
	<u>5,353,322</u>	<u>5,112,775</u>
Preschool:		
Salaries	48,441	27,747
Employee benefits	24,905	12,132
Purchased services	1,416	2,724
Supplies	667	898
Capital outlay	-	282
	<u>75,429</u>	<u>43,783</u>
Summer school:		
Salaries	23,176	36,853
Employee benefits	5,408	8,502
Supplies	691	1,668
	<u>29,275</u>	<u>47,023</u>
Total basic programs	<u>15,428,990</u>	<u>14,901,573</u>
Added needs:		
Special education:		
Salaries	1,695,719	1,705,691
Employee benefits	800,320	791,641
Purchased services	45,076	11,922
Supplies	42,098	53,595
Payments to other districts	292,795	-
	<u>2,876,008</u>	<u>2,562,849</u>
Compensatory education:		
Salaries	371,605	317,797
Employee benefits	161,837	155,809
Purchased services	-	16,744
Supplies	5,178	77,215
Miscellaneous	10,500	9,752
	<u>549,120</u>	<u>577,317</u>

(Continued)

LOWELL AREA SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2007 and 2006

	2007	2006
Vocational education:		
Salaries	\$ 45,205	\$ 46,961
Employee benefits	25,241	24,670
Purchased services	9,204	7,889
Supplies	2,738	7,512
Capital outlay	11,995	3,680
	<u>94,383</u>	<u>90,712</u>
Total added needs	3,519,511	3,230,878
Adult education:		
Basic education:		
Salaries	13,158	14,833
Employee benefits	3,338	3,539
Purchased services	108	22
Supplies	3	241
Miscellaneous	98	106
Total adult education	<u>16,705</u>	<u>18,741</u>
Pupil services:		
Guidance services:		
Salaries	407,632	394,386
Employee benefits	189,767	176,137
Purchased services	9,407	12,593
Supplies	20,320	26,741
Miscellaneous	377	200
	<u>627,503</u>	<u>610,057</u>
Occupational therapist services:		
Salaries	34,651	33,914
Employee benefits	15,720	15,856
Purchased services	1,636	1,911
Supplies	426	736
Payments to other districts	86,751	-
	<u>139,184</u>	<u>52,417</u>
Psychological services:		
Salaries	5,662	3,665
Employee benefits	1,437	879
Purchased services	1,065	1,277
Supplies	2,484	1,804
Payments to other districts	207,568	-
	<u>218,216</u>	<u>7,625</u>
Speech pathology services:		
Salaries	28,183	34,996
Employee benefits	10,841	13,188
Purchased services	1,536	1,426
Supplies	1,506	1,716
Payments to other districts	283,694	-
	<u>325,760</u>	<u>51,326</u>
Social worker services:		
Salaries	8,688	28,626
Employee benefits	22,631	23,926
Purchased services	635	953

(Continued)

LOWELL AREA SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2007 and 2006

	2007	2006
Social worker services: (Continued)		
Supplies	\$ 1,004	\$ 1,798
Payments to other districts	284,335	-
	<u>317,293</u>	<u>55,303</u>
Teacher consultant services:		
Salaries	36,270	-
Employee benefits	12,712	-
Purchased services	436	865
Supplies	3,334	3,261
Payments to other districts	89,501	-
	<u>142,253</u>	<u>4,126</u>
Total pupil services	1,770,209	780,854
Instructional staff services:		
Improvement of instruction:		
Salaries	176,209	238,372
Employee benefits	68,337	80,311
Purchased services	63,661	24,622
Supplies	55,342	49,625
Miscellaneous	11,607	5,430
	<u>375,156</u>	<u>398,360</u>
Library:		
Salaries	188,618	183,471
Employee benefits	108,428	105,467
Purchased services	18,244	12,552
Supplies	57,346	89,941
Capital outlay	-	728
	<u>372,636</u>	<u>392,159</u>
Supervision and direction of instruction:		
Salaries	61,685	40,369
Employee benefits	23,367	19,952
Purchased services	68,285	84,913
Supplies	770	1,013
Miscellaneous	-	75
	<u>154,107</u>	<u>146,322</u>
Other instructional staff services:		
Salaries	7,852	8,059
Employee benefits	1,989	1,914
Purchased services	2,576	1,992
Supplies	844	-
	<u>13,261</u>	<u>11,965</u>
Total instructional staff services	915,160	948,806
General administrative services:		
Board of education:		
Salaries	2,100	2,100
Purchased services	95,031	94,062
Supplies	9,067	1,653
Miscellaneous	16,438	15,966
	<u>122,636</u>	<u>113,781</u>

(Continued)

LOWELL AREA SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2007 and 2006

	2007	2006
Executive administration:		
Salaries	\$ 243,035	\$ 251,858
Employee benefits	110,276	103,360
Purchased services	22,302	38,486
Supplies	5,834	5,537
Capital outlay	1,949	-
Miscellaneous	2,025	3,744
	<u>385,421</u>	<u>402,985</u>
Total general administrative services	508,057	516,766
School administrative services:		
Office of the principal:		
Salaries	1,315,435	1,277,082
Employee benefits	742,136	615,543
Purchased services	53,784	38,502
Supplies	38,562	41,576
Capital outlay	-	125
Miscellaneous	7,494	7,145
	<u>2,157,411</u>	<u>1,979,973</u>
Total school administrative services		
Business services:		
Fiscal services:		
Salaries	281,662	268,836
Employee benefits	158,424	152,388
Purchased services	28,464	40,836
Supplies	111,893	101,075
Capital outlay	-	250
Miscellaneous	13,055	10,068
	<u>593,498</u>	<u>573,453</u>
Other business services:		
Salaries	10,006	45
Employee benefits	2,495	10
Purchased services	3,131	18,772
Miscellaneous	217,602	164,985
	<u>233,234</u>	<u>183,812</u>
Total business services	826,732	757,265
Operation and maintenance services:		
Operation and maintenance:		
Salaries	814,473	831,400
Employee benefits	496,594	500,100
Purchased services	780,787	799,219
Supplies	755,316	768,537
Capital outlay	14,623	105,424
Miscellaneous	1,696	111
	<u>2,863,489</u>	<u>3,004,791</u>
Security services:		
Salaries	63,572	56,405
Employee benefits	33,939	29,351
Purchased services	5,239	5,354

(Continued)

LOWELL AREA SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2007 and 2006

	2007	2006
Security services: (Continued)		
Supplies	\$ 3,653	\$ 2,194
Capital outlay	-	18,436
	<u>106,403</u>	<u>111,740</u>
Total operation and maintenance services	2,969,892	3,116,531
Pupil transportation services:		
Pupil transportation:		
Salaries	766,520	770,893
Employee benefits	393,788	426,253
Purchased services	120,688	93,795
Supplies	222,816	236,516
Capital outlay	190,668	174,350
Payments to other districts	1,103,451	-
	<u>2,797,931</u>	<u>1,701,807</u>
Total pupil transportation services	2,797,931	1,701,807
Central services:		
Planning and evaluation:		
Salaries	13,892	13,230
Employee benefits	1,126	1,330
Purchased services	78,985	79,581
Supplies	2,821	2,689
	<u>96,824</u>	<u>96,830</u>
Staff/personnel services:		
Purchased services	6,912	-
Technology services:		
Salaries	211,244	208,971
Employee benefits	117,908	101,265
Purchased services	68,562	76,475
Supplies	68,579	47,561
Capital outlay	43,422	69,047
Miscellaneous	-	681
	<u>509,715</u>	<u>504,000</u>
Total central services	613,451	600,830
Community services:		
Community services direction:		
Salaries	900	900
Employee benefits	226	213
Purchased services	26,488	31,127
	<u>27,614</u>	<u>32,240</u>
Community recreation:		
Salaries	78,831	80,259
Employee benefits	37,150	38,096
Purchased services	36,777	30,526
Supplies	7,911	12,784
Capital outlay	16,027	20,158
	<u>176,696</u>	<u>181,823</u>

(Continued)

LOWELL AREA SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2007 and 2006

	2007	2006
Community activities:		
Salaries	\$ -	\$ 150
Employee benefits	-	86
Purchased services	3,000	1,352
Supplies	6,888	5,629
	<u>9,888</u>	<u>7,217</u>
Custody and care of children:		
Salaries	99,584	93,812
Employee benefits	38,459	33,511
Purchased services	6,843	1,530
Supplies	21,029	19,553
Capital outlay	-	38,034
	<u>165,915</u>	<u>186,440</u>
Other community services:		
Salaries	13,024	12,595
Employee benefits	3,242	2,961
Purchased services	792	3,748
Supplies	96	406
	<u>17,154</u>	<u>19,710</u>
Total community services	397,267	427,430
Capital outlay:		
Land acquisition	250,388	-
Debt service:		
Principal repayment	334,128	335,862
Interest expense	81,832	85,807
Total debt service	<u>415,960</u>	<u>421,669</u>
Interdistrict:		
Special education tuition	-	339,832
Special education transportation	-	1,129,504
Special education itinerants	-	974,857
Total interdistrict	<u>-</u>	<u>2,444,193</u>
Total Expenditures	<u><u>\$ 32,587,664</u></u>	<u><u>\$ 31,847,316</u></u>

NONMAJOR FUNDS

LOWELL AREA SCHOOLS
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2007

Assets	Special Revenue	
	Food Service	Athletics
Cash equivalents, deposits and investments	\$ 105,011	21,398
Receivables:		
Taxes	-	-
Accounts	2,099	-
Due from other funds	-	-
Due from other governmental units	10,703	-
Inventory	14,330	-
Prepaid expenditures	63,325	-
Total Assets	\$ 195,468	\$ 21,398
Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 21,485	\$ 2,364
Due to other governmental units	-	1,084
Salaries payable	-	4,270
Deferred revenue	-	-
Total Liabilities	21,485	7,718
Fund balances		
Reserved for debt service	-	-
Reserved for capital outlay	-	-
Unreserved:		
Undesignated	173,983	13,680
Total Fund Balances	173,983	13,680
Total Liabilities and Fund Balances	\$ 195,468	\$ 21,398

Debt Service				Capital Projects	
1990	2000	2004	2005	2004 Construction	Total
\$ 324,129	\$ 50,557	\$ 190,538	\$ 66,812	149,007	\$ 907,452
4,357	513	244	582	-	5,696
-	-	-	-	-	2,099
-	-	-	-	2,995	2,995
-	-	-	-	-	10,703
-	-	-	-	-	14,330
-	-	-	-	-	63,325
<u>\$ 328,486</u>	<u>\$ 51,070</u>	<u>\$ 190,782</u>	<u>\$ 67,394</u>	<u>\$ 152,002</u>	<u>\$ 1,006,600</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23,849
-	-	-	-	-	1,084
-	-	-	-	-	4,270
4,357	513	244	582	-	5,696
<u>4,357</u>	<u>513</u>	<u>244</u>	<u>582</u>	<u>-</u>	<u>34,899</u>
324,129	50,557	190,538	66,812	-	632,036
-	-	-	-	152,002	152,002
-	-	-	-	-	187,663
<u>324,129</u>	<u>50,557</u>	<u>190,538</u>	<u>66,812</u>	<u>152,002</u>	<u>971,701</u>
<u>\$ 328,486</u>	<u>\$ 51,070</u>	<u>\$ 190,782</u>	<u>\$ 67,394</u>	<u>\$ 152,002</u>	<u>\$ 1,006,600</u>

LOWELL AREA SCHOOLS
Combining Schedule of Revenues, Expenditures and Changes in
Fund Balances - Nonmajor Governmental Funds
For the year ended June 30, 2007

	Special Revenue	
	Food Service	Athletics
Revenues		
Local sources:		
Property taxes	\$ -	\$ -
Interest earnings	6,579	3,005
Sales and admissions	786,295	282,986
Other local sources	-	-
Total local sources	792,874	285,991
State sources	69,771	-
Federal sources	372,687	-
Total Revenues	1,235,332	285,991
Expenditures		
Current:		
Food service	1,184,058	-
Athletics	-	614,996
Capital outlay	-	-
Debt service:		
Principal repayment	-	-
Interest and fiscal charges	-	-
Total Expenditures	1,184,058	614,996
Excess (Deficiency) of Revenues Over Expenditures	51,274	(329,005)
Other Financing Sources		
Transfers in	-	321,145
Net Change in Fund Balances	51,274	(7,860)
Fund Balances, July 1	122,709	21,540
Fund Balances, June 30	\$ 173,983	\$ 13,680

Debt Service				Capital Projects 2004	
1990	2000	2004	2005	Construction	Total
\$ 3,875,889	\$ 381,605	\$ 69,986	\$ 519,034	\$ -	\$ 4,846,514
60,762	7,861	15,171	4,349	8,476	106,203
-	-	-	-	-	1,069,281
4,466	-	-	-	-	4,466
3,941,117	389,466	85,157	523,383	8,476	6,026,464
-	-	-	-	-	69,771
-	-	-	-	-	372,687
3,941,117	389,466	85,157	523,383	8,476	6,468,922
-	-	-	-	-	1,184,058
-	-	-	-	-	614,996
-	-	-	-	72,099	72,099
2,800,000	325,000	140,000	35,000	-	3,300,000
796,554	88,583	165,727	452,716	-	1,503,580
3,596,554	413,583	305,727	487,716	72,099	6,674,733
344,563	(24,117)	(220,570)	35,667	(63,623)	(205,811)
-	-	-	-	-	321,145
344,563	(24,117)	(220,570)	35,667	(63,623)	115,334
(20,434)	74,674	411,108	31,145	215,625	856,367
\$ 324,129	\$ 50,557	\$ 190,538	\$ 66,812	\$ 152,002	\$ 971,701

LOWELL AREA SCHOOLS
Food Service Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2007

	Budget	Actual	Variance - Positive (Negative)
Revenues			
Local sources:			
Interest earnings	\$ 6,617	\$ 6,579	\$ (38)
Sales and admissions	786,237	786,295	58
Total local sources	792,854	792,874	20
State sources	69,772	69,771	(1)
Federal sources	372,692	372,687	(5)
Total Revenues	<u>1,235,318</u>	<u>1,235,332</u>	<u>14</u>
Expenditures			
Current:			
Food service	1,190,912	1,184,058	6,854
Net Change in Fund Balances	44,406	51,274	6,868
Fund Balances, July 1	<u>122,709</u>	<u>122,709</u>	<u>-</u>
Fund Balances, June 30	<u><u>\$ 167,115</u></u>	<u><u>\$ 173,983</u></u>	<u><u>\$ 6,868</u></u>

LOWELL AREA SCHOOLS
Athletics Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2007

	Budget	Actual	Variance - Positive (Negative)
Revenues			
Local sources:			
Interest earnings	\$ 2,977	\$ 3,005	\$ 28
Sales and admissions	282,960	282,986	26
Total Revenues	285,937	285,991	54
Expenditures			
Current:			
Athletics	613,157	614,996	(1,839)
Excess (Deficiency) of Revenues Over Expenditures	(327,220)	(329,005)	(1,785)
Other Financing Sources			
Transfers in	321,145	321,145	-
Net Change in Fund Balances	(6,075)	(7,860)	(1,785)
Fund Balances, July 1	21,540	21,540	-
Fund Balances, June 30	\$ 15,465	\$ 13,680	\$ (1,785)

SPECIAL REVENUE FUNDS

Food Service—to account for monies received from food service activities and federal subsidies for use in administering the hot lunch program of the District.

Athletics—to account for activity receipts and General Fund contributions used in administering the athletic program of the District.

LOWELL AREA SCHOOLS
Food Service Special Revenue Fund
Comparative Balance Sheet
June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Assets		
Cash equivalents, deposits and investments	\$ 105,011	\$ 49,501
Accounts receivable	2,099	2,249
Due from other governmental units	10,703	11,084
Inventory	14,330	16,266
Prepaid expenditures	<u>63,325</u>	<u>60,000</u>
Total Assets	<u><u>\$ 195,468</u></u>	<u><u>\$ 139,100</u></u>
 Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 21,485	\$ 16,391
 Fund Balances		
Unreserved:		
Undesignated	<u>173,983</u>	<u>122,709</u>
Total Liabilities and Fund Balances	<u><u>\$ 195,468</u></u>	<u><u>\$ 139,100</u></u>

LOWELL AREA SCHOOLS
Food Service Special Revenue Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Revenues		
Local sources:		
Sales and admissions:		
Children's lunches	\$ 765,742	\$ 814,931
Adult lunches	20,553	25,640
Other	-	92
	<u>786,295</u>	<u>840,663</u>
Interest earnings:		
Interest on deposits	6,579	3,637
Total local sources	<u>792,874</u>	<u>844,300</u>
State sources	69,771	72,050
Federal sources	<u>372,687</u>	<u>346,976</u>
Total Revenues	<u>1,235,332</u>	<u>1,263,326</u>
Expenditures		
Current:		
Food service:		
Salaries	285,245	299,126
Employee benefits	123,868	135,696
Purchased services	199,964	189,982
Supplies	539,887	520,084
Capital outlay	15,094	-
Indirect cost allocation	<u>20,000</u>	<u>-</u>
Total Expenditures	<u>1,184,058</u>	<u>1,144,888</u>
Net Change in Fund Balances	51,274	118,438
Fund Balances, July 1	<u>122,709</u>	<u>4,271</u>
Fund Balances, June 30	<u><u>\$ 173,983</u></u>	<u><u>\$ 122,709</u></u>

LOWELL AREA SCHOOLS
Athletics Special Revenue Fund
Comparative Balance Sheet
June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Assets		
Cash equivalents, deposits and investments	\$ 21,398	\$ 26,987
Accounts receivable	<u>-</u>	<u>384</u>
Total Assets	<u><u>\$ 21,398</u></u>	<u><u>\$ 27,371</u></u>
Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 2,364	\$ 816
Due to other governmental units	1,084	970
Salaries payable	<u>4,270</u>	<u>4,045</u>
Total Liabilities	<u>7,718</u>	<u>5,831</u>
Fund Balances		
Unreserved:		
Undesignated	<u>13,680</u>	<u>21,540</u>
Total Liabilities and Fund Balances	<u><u>\$ 21,398</u></u>	<u><u>\$ 27,371</u></u>

LOWELL AREA SCHOOLS
Athletics Special Revenue Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Revenues		
Local sources:		
Sales and admissions:		
Admissions	\$ 133,785	\$ 125,891
Sports fees and charges	70,622	72,395
Tournament fees	66,058	49,313
Donations	12,426	14,392
Other	95	-
	<u>282,986</u>	<u>261,991</u>
Interest earnings:		
Interest on deposits	<u>3,005</u>	<u>2,073</u>
Total Revenues	<u>285,991</u>	<u>264,064</u>
Expenditures		
Current:		
Athletics:		
Salaries	345,830	338,212
Employee benefits	116,876	105,816
Purchased services	33,920	28,027
Supplies	117,954	102,119
Capital outlay	416	-
	<u>614,996</u>	<u>574,174</u>
Total Expenditures	<u>614,996</u>	<u>574,174</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(329,005)</u>	<u>(310,110)</u>
Other Financing Sources		
Transfers in	<u>321,145</u>	<u>291,145</u>
Net Change in Fund Balances	(7,860)	(18,965)
Fund Balances, July 1	<u>21,540</u>	<u>40,505</u>
Fund Balances, June 30	<u><u>\$ 13,680</u></u>	<u><u>\$ 21,540</u></u>

DEBT SERVICE FUNDS

Debt Service Funds—To accumulate property tax revenues and interest earnings for repayment of the bond issues of the District used to finance new building construction projects.

LOWELL AREA SCHOOLS
Debt Service Funds
Combining Balance Sheet
June 30, 2007

	<u>1990</u>	<u>2000</u>	<u>2004</u>	<u>2005</u>
Assets				
Cash equivalents, deposits and investments	\$ 324,129	\$ 50,557	\$ 190,538	\$ 66,812
Taxes receivable	<u>4,357</u>	<u>513</u>	<u>244</u>	<u>582</u>
Total Assets	<u><u>\$ 328,486</u></u>	<u><u>\$ 51,070</u></u>	<u><u>\$ 190,782</u></u>	<u><u>\$ 67,394</u></u>
Liabilities and Fund Balances				
Liabilities				
Due to other governmental units	\$ -	\$ -	\$ -	\$ -
Deferred revenue	<u>4,357</u>	<u>513</u>	<u>244</u>	<u>582</u>
Total Liabilities	<u>4,357</u>	<u>513</u>	<u>244</u>	<u>582</u>
Fund Balances				
Reserved for debt service	<u>324,129</u>	<u>50,557</u>	<u>190,538</u>	<u>66,812</u>
Total Liabilities and Fund Balances	<u><u>\$ 328,486</u></u>	<u><u>\$ 51,070</u></u>	<u><u>\$ 190,782</u></u>	<u><u>\$ 67,394</u></u>

Totals	
2007	2006
\$ 632,036	\$ 507,682
5,696	8,525
<u>\$ 637,732</u>	<u>\$ 516,207</u>

\$ -	\$ 11,189
5,696	8,525
<u>5,696</u>	<u>19,714</u>

632,036	496,493
<u>\$ 637,732</u>	<u>\$ 516,207</u>

LOWELL AREA SCHOOLS
Debt Service Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
For the year ended June 30, 2007

	1990	2000	2004	2005
Revenues				
Local sources:				
Property taxes:				
Current property taxes	\$3,844,549	\$ 377,963	\$68,658	\$ 514,943
Industrial facilities taxes	17,367	1,706	310	2,326
Delinquent property taxes	3,382	415	617	531
Other taxes	2,395	635	211	168
Interest on delinquent taxes	8,196	886	190	1,066
	<u>3,875,889</u>	<u>381,605</u>	<u>69,986</u>	<u>519,034</u>
Interest earnings:				
Interest on deposits and investments	60,762	7,861	15,171	4,349
Other local sources:				
Refund of prior year expenditures	4,466	-	-	-
State sources:				
State school aid	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>3,941,117</u>	<u>389,466</u>	<u>85,157</u>	<u>523,383</u>
Expenditures				
Debt service:				
Principal repayment	2,800,000	325,000	140,000	35,000
Interest and fiscal charges:				
Interest expense	783,873	83,346	124,843	451,814
Paying agent fees	955	300	40,670	719
Tax refunds	11,726	4,937	214	183
	<u>3,596,554</u>	<u>413,583</u>	<u>305,727</u>	<u>487,716</u>
Total Expenditures	<u>3,596,554</u>	<u>413,583</u>	<u>305,727</u>	<u>487,716</u>
Net Change in Fund Balances	344,563	(24,117)	(220,570)	35,667
Fund Balances, July 1	<u>(20,434)</u>	<u>74,674</u>	<u>411,108</u>	<u>31,145</u>
Fund Balances, June 30	<u><u>\$ 324,129</u></u>	<u><u>\$ 50,557</u></u>	<u><u>\$ 190,538</u></u>	<u><u>\$ 66,812</u></u>

Totals	
2007	2006
\$4,806,113	\$ 4,477,647
21,709	24,615
4,945	5,496
3,409	5,285
10,338	7,122
4,846,514	4,520,165
88,143	73,035
4,466	-
-	41,825
4,939,123	4,635,025
3,300,000	2,998,829
1,443,876	1,505,290
42,644	9,616
17,060	5,880
4,803,580	4,519,615
135,543	115,410
496,493	381,083
\$ 632,036	\$ 496,493

CAPITAL PROJECTS FUND

2004 Construction — to account for bond proceeds used to finance building construction and renovation projects.

LOWELL AREA SCHOOLS
2004 Construction Capital Projects Fund
Comparative Balance Sheet
June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Assets		
Cash equivalents, deposits and investments	\$ 149,007	\$ 215,625
Due from other funds	<u>2,995</u>	<u>-</u>
Total Assets	<u><u>\$ 152,002</u></u>	<u><u>\$ 215,625</u></u>
Liabilities and Fund Balances		
Liabilities	<u>\$ -</u>	<u>\$ -</u>
Fund Balances		
Reserved for capital outlay	<u>152,002</u>	<u>215,625</u>
Total Liabilities and Fund Balances	<u><u>\$ 152,002</u></u>	<u><u>\$ 215,625</u></u>

LOWELL AREA SCHOOLS
2004 Construction Capital Projects Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Revenues		
Interest earnings:		
Interest on deposits	\$ 8,476	\$ 8,290
Expenditures		
Capital outlay:		
Construction manager	-	3,929
Buildings and additions	72,099	27,058
Equipment and furniture	-	1,320
Bank fees	-	145
Total Expenditures	<u>72,099</u>	<u>32,452</u>
Net Change in Fund Balances	(63,623)	(24,162)
Fund Balances, July 1	<u>215,625</u>	<u>239,787</u>
Fund Balances, June 30	<u><u>\$ 152,002</u></u>	<u><u>\$ 215,625</u></u>

AGENCY FUND

Student Activities—to account for the collection and disbursements of monies used by the school activity clubs and groups.

LOWELL AREA SCHOOLS
Student Activities Agency Fund
Statement of Changes in Assets and Liabilities
For the year ended June 30, 2007

	<u>Balances</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>June 30, 2007</u>
Assets				
Cash equivalents, deposits and investments	<u>\$ 321,237</u>	<u>\$ 620,849</u>	<u>\$ 623,200</u>	<u>\$ 318,886</u>
Liabilities				
Due to student groups	<u>\$ 321,237</u>	<u>\$ 620,849</u>	<u>\$ 623,200</u>	<u>\$ 318,886</u>

OTHER INFORMATION

LOWELL AREA SCHOOLS
Summary of 2006 Taxes Levied and Collected
For the year ended June 30, 2007

	County of Kent				
	City of Lowell	Ada	Bowne	Cannon	Cascade
Taxable Valuations					
Operating	\$57,395,409	\$13,738,279	\$17,162,819	\$ 1,343,931	\$ 5,479,924
Debt Service	106,804,776	77,124,467	49,822,795	11,628,015	29,871,601
Rates (Mills)					
General Fund					
1990 Debt Service Fund					
2000 Debt Service Fund					
2004 Debt Service Fund					
2005 Debt Service Fund					
Taxes Levied 2006 Rolls					
General Fund	\$ 978,053	\$ 247,288	\$ 172,984	\$ 24,191	\$ 98,638
1990 Debt Service Fund	598,098	431,893	279,004	65,116	167,280
2000 Debt Service Fund	58,742	42,418	27,402	6,395	16,429
2004 Debt Service Fund	10,680	7,712	4,982	1,163	2,987
2005 Debt Service Fund	80,103	57,843	37,367	8,721	22,404
	<u>1,725,676</u>	<u>787,154</u>	<u>521,739</u>	<u>105,586</u>	<u>307,738</u>
Taxes Uncollected 2006 Rolls					
General Fund	2,180	-	381	-	-
1990 Debt Service Fund	678	-	119	-	-
2000 Debt Service Fund	67	-	12	-	-
2004 Debt Service Fund	12	-	2	-	-
2005 Debt Service Fund	91	-	16	-	-
	<u>3,028</u>	<u>-</u>	<u>530</u>	<u>-</u>	<u>-</u>
Taxes Collected 2006 Rolls					
General Fund	975,873	247,288	172,603	24,191	98,638
1990 Debt Service Fund	597,420	431,893	278,885	65,116	167,280
2000 Debt Service Fund	58,675	42,418	27,390	6,395	16,429
2004 Debt Service Fund	10,668	7,712	4,980	1,163	2,987
2005 Debt Service Fund	80,012	57,843	37,351	8,721	22,404
	<u>1,722,648</u>	<u>787,154</u>	<u>521,209</u>	<u>105,586</u>	<u>307,738</u>
Delinquent Taxes Collected					
General Fund	3,898	-	128	-	83
1990 Debt Service Fund	1,089	-	35	-	25
2000 Debt Service Fund	141	-	5	-	8
2004 Debt Service Fund	206	-	6	-	5
2005 Debt Service Fund	183	-	6	-	-
	<u>5,517</u>	<u>-</u>	<u>180</u>	<u>-</u>	<u>121</u>
Total Taxes Collected					
General Fund	979,771	247,288	172,731	24,191	98,721
1990 Debt Service Fund	598,509	431,893	278,920	65,116	167,305
2000 Debt Service Fund	58,816	42,418	27,395	6,395	16,437
2004 Debt Service Fund	10,874	7,712	4,986	1,163	2,992
2005 Debt Service Fund	80,195	57,843	37,357	8,721	22,404
	<u>\$1,728,165</u>	<u>\$ 787,154</u>	<u>\$ 521,389</u>	<u>\$ 105,586</u>	<u>\$ 307,859</u>

(Continued)

County of Ionia						
Townships						
Grattan	Lowell	Vergennes	Boston	Campbell	Keene	Total
\$ 10,829,769	\$ 36,441,071	\$ 31,340,786	\$ 4,395,760	\$ 102,074	\$ 1,638,770	\$179,868,592
54,761,014	161,996,342	158,388,535	19,574,315	1,182,144	15,832,390	686,986,394
						18.0000
						5.6000
						0.5500
						0.1000
						0.7500
						25.0000
\$ 194,934	\$ 655,936	\$ 549,768	\$ 79,124	\$ 1,837	\$ 29,498	\$ 3,032,251
306,656	907,166	886,962	109,616	6,620	88,661	3,847,072
30,118	89,097	87,112	10,766	650	8,708	377,837
5,476	16,199	15,839	1,957	118	1,583	68,696
41,070	121,495	118,790	14,681	887	11,874	515,235
578,254	1,789,893	1,658,471	216,144	10,112	140,324	7,841,091
-	2,111	5,428	99	-	-	10,199
-	657	1,689	31	-	-	3,174
-	65	166	3	-	-	313
-	12	30	-	-	-	56
-	88	226	4	-	-	425
-	2,933	7,539	137	-	-	14,167
194,934	653,825	544,340	79,025	1,837	29,498	3,022,052
306,656	906,509	885,273	109,585	6,620	88,661	3,843,898
30,118	89,032	86,946	10,763	650	8,708	377,524
5,476	16,187	15,809	1,957	118	1,583	68,640
41,070	121,407	118,564	14,677	887	11,874	514,810
578,254	1,786,960	1,650,932	216,007	10,112	140,324	7,826,924
-	5,703	3,556	400	-	-	13,768
-	1,147	976	110	-	-	3,382
-	122	125	14	-	-	415
-	192	187	21	-	-	617
-	157	166	19	-	-	531
-	7,321	5,010	564	-	-	18,713
194,934	659,528	547,896	79,425	1,837	29,498	3,035,820
306,656	907,656	886,249	109,695	6,620	88,661	3,847,280
30,118	89,154	87,071	10,777	650	8,708	377,939
5,476	16,379	15,996	1,978	118	1,583	69,257
41,070	121,564	118,730	14,696	887	11,874	515,341
\$ 578,254	\$ 1,794,281	\$ 1,655,942	\$ 216,571	\$ 10,112	\$ 140,324	\$ 7,845,637

LOWELL AREA SCHOOLS
Summary of 2006 Taxes Levied and Collected
For the year ended June 30, 2007

	County of Kent				
	City of Lowell	Ada	Bowne	Cannon	Cascade
Taxes Uncollected – June 30, 2007					
General Fund:					
2006	\$ 2,180	\$ -	\$ 381	\$ -	\$ -
2005	1,155	-	-	-	-
2004	709	235	11	-	-
	<u>4,044</u>	<u>235</u>	<u>392</u>	<u>-</u>	<u>-</u>
1990 Debt Service Fund:					
2006	678	-	119	-	-
2005	310	-	-	-	-
2004	209	64	3	-	-
	<u>1,197</u>	<u>64</u>	<u>122</u>	<u>-</u>	<u>-</u>
2000 Debt Service Fund:					
2006	67	-	12	-	-
2005	37	-	-	-	-
2004	65	21	1	-	-
	<u>169</u>	<u>21</u>	<u>13</u>	<u>-</u>	<u>-</u>
2004 Debt Service Fund:					
2006	12	-	2	-	-
2005	62	-	-	-	-
2004	8	3	1	-	-
	<u>82</u>	<u>3</u>	<u>3</u>	<u>-</u>	<u>-</u>
2005 Debt Service Fund:					
2006	91	-	16	-	-
2005	55	-	-	-	-
	<u>146</u>	<u>-</u>	<u>16</u>	<u>-</u>	<u>-</u>
Total Taxes Uncollected	<u><u>\$ 5,638</u></u>	<u><u>\$ 323</u></u>	<u><u>\$ 546</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

County of Ionia						
Townships						
Grattan	Lowell	Vergennes	Boston	Campbell	Keene	Total
\$ -	\$ 2,111	\$ 5,428	\$ 99	\$ -	\$ -	\$ 10,199
-	400	479	1,243	-	-	3,277
-	37	-	-	-	-	992
-	2,548	5,907	1,342	-	-	14,468
-	657	1,689	31	-	-	3,174
-	108	141	345	-	-	904
-	3	-	-	-	-	279
-	768	1,830	376	-	-	4,357
-	65	166	3	-	-	313
-	14	18	44	-	-	113
-	-	-	-	-	-	87
-	79	184	47	-	-	513
-	12	30	-	-	-	56
-	20	27	66	-	-	175
-	1	-	-	-	-	13
-	33	57	66	-	-	244
-	88	226	4	-	-	425
-	19	24	59	-	-	157
-	107	250	63	-	-	582
\$ -	\$ 3,535	\$ 8,228	\$ 1,894	\$ -	\$ -	\$ 20,164

Hungerford, Aldrin,
Nichols & Carter, P.C.

C P A s A N D C O N S U L T A N T S

November 12, 2007

The Board of Education
Lowell Area Schools

The following comments pertain to our audit of the financial records of Lowell Area Schools as of and for the year ended June 30, 2007. The comments are made in accordance with Statement on Auditing Standards No. 61 "Communication with Audit Committees" which requires that in certain audits, certain matters are to be communicated to those who have responsibility for oversight of the financial reporting process. The communications required by this statement, if pertinent to the examination, are as follows:

1. Auditor's Responsibility Under Generally Accepted Auditing Standards.
2. Significant Accounting Policies.
3. Management Judgments and Accounting Estimates.
4. Significant Audit Adjustments.
5. Other Information in Documents Containing Audited Financial Statements.
6. Disagreements With Management.
7. Consultation With Other Accountants.
8. Major Issues Discussed With Management Prior to Retention.
9. Difficulties Encountered in Performing the Audit.
10. Uncorrected Misstatements (Passed Audit Adjustments).

The communications specified by this Statement are incidental to the audit and are not required to occur before, nor do they affect, our auditor's report on the District's financial statements.

The following are the matters to be communicated by SAS No. 61 based on our observations during the course of our audit of the financial statements and our review and evaluation of the internal control system of Lowell Area Schools:

Auditors Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Lowell Area School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Lowell Area School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Lowell Area School's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Lowell Area School's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Lowell Area School's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Lowell Area Schools are described in Note A to the financial statements.

Difficulties Encountered In Performing The Audit

We encountered no significant difficulties in performing the audit of the financial statements of Lowell Area Schools for the year ended June 30, 2007.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. During the course of our audit the following adjustments of a significant nature were made to the accounting records of the District to bring the balances to those presented in the financial statements:

General Fund

1. \$22,000 to record the special education transportation billing due to KISD at June 30, 2007.

Proposed Audit Adjustments

There were no material adjustments proposed during the audit not recorded by Lowell Area Schools.

Suggestions And Recommendations

We offered suggestions and recommendations regarding the day-to-day operations of the accounting system of Lowell Area Schools to the Assistant Superintendent for Finance and Personnel, the Finance Supervisor and District payroll and accounting personnel as the topics arose during the course of our audit fieldwork. Hopefully, these suggestions will ease the day-to-day operations of the business office and assist in more efficient monthly and year-end financial record keeping and reporting.

In the fall of 2006, the AICPA issued Statement on Auditing Standards No. 112 “*Communicating Internal Control Related Matters Identified in an Audit*”, which requires a written communication from an auditor to an organization’s governing board if any weaknesses in internal controls (“control deficiencies”) rise to the level of “significant deficiencies” or “material weaknesses” that might effect the integrity of the financial statements. The AICPA significantly broadened the standards as to what might be a significant deficiency and/or material weakness and raised the expectations of auditors to report these control deficiencies, if found. We did observe certain control deficiencies in areas of the District’s internal control during the course of our audit that we determined to be significant deficiencies or material weaknesses, which have been detailed in a separate letter to the Board of Education. The following recommendations relate to our internal control findings:

- The District should establish review functions within the business office (bank reconciliations, payroll operations, invoice approval, financial statements, etc.) and outside of the business office (athletics, food service, student activities, collection/deposit of tuition/fees) in order to overcome the control deficiency of a *lack of monitoring* of control activities that currently exists.
- The District should continue to improve the *documentation* for a uniform set of accounting policies and procedures that are designed to be applied consistently throughout the District; this will increase the efficiency and accountability of the accounting and record keeping process and strengthen in internal control system of the District.

- We encourage the District to support the Assistant Superintendent of Finance, District Accountant, and other business office personnel in *furthering their education in the area of governmental accounting and financial statement preparation* requirements to achieve and maintain compliance with current GAAP and GASB standards. These are complex and constantly changing requirements that continue to increase and undergo significant modifications.

Our audit this year was again completed under the requirements of Statement on Auditing Standards No. 99 "Consideration of Fraud in a Financial Statement Audit" (SAS No. 99), which requires both auditors and their clients to more directly and openly assess those areas within a school district that might be susceptible to fraudulent activity, which would normally include those areas outside the central office that handle cash, inventory, supplies, etc. This is an important audit standard that requires increased face-to-face discussions/interviews with client personnel and extensive documentation of our findings for future reference. We found that Lowell Area Schools has a very extensive network of internal controls within its accounting and record keeping system, and found those tested this year to be operating in the manner intended. Working with District business office personnel, we will be testing other control areas each year as a part of our audit, with suggestions and recommendations to follow the testing each year, to assist the District in maintaining and improving its systems.

Other Comments

The General Fund balance of the District increased by \$776,909 to \$3,420,847 at June 30, 2007. This balance represents approximately 10 percent of the District's 2007-08 expenditure budget, up from 8 percent at June 30, 2006. Maintaining a fund balance of at least 10 to 20 percent of the ensuing year's expenditure budget is advisable for Lowell Area Schools. This gives the District more stable operating funds during the year, helps avoid or reduce the necessity of borrowing for short-term cash flow purposes and acts as a buffer against the uncertainty of state aid revenues accruing to the District. In addition, employee benefit costs are expected to increase significantly in the next few years, which will require the use of fund balance reserves considering the expectation of small (or no) growth in state aid revenues.

This communication is intended solely for the information and use of the Lowell Area Schools Board of Education, administration and others within the organization. We have furnished a copy of this letter to the Michigan Department of Education as an enclosure with the audit report as required by the State of Michigan.

We appreciate the opportunity to provide financial auditing and advisory services to Lowell Area Schools and hope to continue to do so in the future. We also appreciate the dedication and cooperation of the District's administration and accounting personnel in performing their functions and in assisting us in completing ours. If there are any questions regarding the audit report, or the attached communications, we will be happy to address them.

Hungerford, Aldrin, Nichols & Carter, P.C.

Certified Public Accountants

Hungerford, Aldrin,
Nichols & Carter, P.C.

CPAs AND CONSULTANTS

November 12, 2007

The Board of Education
Lowell Area Schools
Kent County, Michigan

The following comments pertain to our audit of the financial records of Lowell Area Schools as of and for the year ended June 30, 2007. The comments are made in accordance with Statement on Auditing Standards No. 112 "*Communicating Internal Control Related Matters Identified in an Audit*" which has the following two unconditional requirements:

- The auditor must evaluate identified *control deficiencies* and determine whether those deficiencies, individually or in combination, are *significant deficiencies* or *material weaknesses*.
- The auditor *must communicate, in writing, significant deficiencies and material weaknesses* to management and those charged with governance. This communication includes significant deficiencies and material weaknesses identified and communicated to management and those charged with governance in prior audits but not yet remediated.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is *more than a remote likelihood* that a misstatement of the entity's financial statements that is *more than inconsequential* will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in *more than a remote likelihood* that a *material misstatement of the financial statements* will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness:

The following describe circumstances that may be control deficiencies, significant deficiencies, or material weaknesses:

- Inadequate *design* of internal control over a significant account or process.
- Inadequate *documentation* of the components of internal control.
- Insufficient *control consciousness* within the organization, for example, the tone at the top and the control environment.
- Inadequate or absent *segregation of duties* within a significant account or process.
- Inadequate design of *information technology* (IT) general and application controls.
- Inadequate design of *monitoring* controls used to assess the design and operating effectiveness of internal controls.
- The absence of an internal process to *report deficiencies* in internal controls to management on a timely basis.
- Employees or management who *lack the qualifications and training* to fulfill their assigned functions. For example, in an entity that prepares financial statements in accordance with Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) requirements, the person responsible for the accounting and reporting function lacks the level of skills and knowledge necessary to apply GAAP and GASB standards in recording the entity's financial transactions or *preparing its financial statements* (including the notes to basic financial statements).

The management of Lowell Area Schools is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

In planning and performing our audit of the financial statements of Lowell Area Schools as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Lowell Area School's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we do not express an opinion on the effectiveness of

the organization's internal control. Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies or material weaknesses.

- *A lack of independent monitoring* of certain accounting functions in the District business office (payroll operations, bank reconciliations) and of financial transactions occurring outside the business office (athletics, food service, student activities, tuitions and fees).
- District personnel who *lack the knowledge and training* to fulfill certain required functions:
 1. The lack of knowledge and skills present to apply Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) requirements in recording the District's financial transactions or preparing its financial statements (including the notes to basic financial statements) in compliance with current GAAP and GASB requirements.

This communication is intended solely for the information and use of management, the Board of Education, others within the organization, and the Michigan Department of Treasury. It is not intended to be and should not be used by anyone other than these specified parties.

Hungerford, Aldrin, Nichols & Carter, P.C.

Certified Public Accountants